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INTERNATIONAL MONETARY FUND GOLD RESERVES

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

PROPOSALS TO SELL, LEND, OR BORROW AGAINST THE IMG GOLD AS AN ALTERNATIVE OR A PARTIAL ALTERNATIVE TO THE PROPOSED INCREASE IN IMF RESOURCES

JUNE 6, 1983

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INTERNATIONAL MONETARY FUND GOLD RESERVES

MONDAY, JUNE 6, 1983

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 9:30 a.m., in room SD–538, of the Dirksen Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn, Hawkins, Mattingly, and Hecht.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The Banking Committee will come to order.

This morning's hearing is the first of two which the Banking Committee will hold on the gold holdings of the International Monetary Fund. The second hearing will be on Tuesday, June 28, at 9:30 a.m.

During the April 28 markup of S. 695, legislation that would authorize the U.S. contribution to an increase in IMF resources, Senator Hawkins, Senator Mattingly, and I agreed that a hearing on these gold holdings is needed. Our original intention was to complete these hearings prior to this week's planned Senate floor action on S. 695. Accordingly, the hearings were originally scheduled for May 17 with Under Secretary of the Treasury, Beryl Sprinkel slated to be the leadoff witness.

Senator Hawkins has taken the lead in working to schedule other witnesses for these hearings. Some of the witnesses she most wants to have testify were unable to appear on May 17. For this reason the May 17 hearings were postponed and Secretary Sprinkel's appearance was rescheduled for today.

Unfortunately, some of the witnesses Mrs. Hawkins had contacted were not able to schedule an appearance before the end of June and, rather than forego those witnesses, Senator Hawkins requested a second hearing be held on June 28, even though this will be after Senate floor action on S. 695. Senator Mattingly and I have agreed to that request. We wished we could have put the two hearings together in one, but we were not able to.

Secretary Sprinkel, we're happy to have you with us today and please proceed.

STATEMENT OF BERYL W. SPRINKEL, UNDER SECRETARY OF THE TREASURY

Mr. SPRINKEL. Mr. Chairman, it's a pleasure to appear before you today to discuss proposals to mobilize the IMF's gold holdings. At a time of budget constraints and domestic economic problems, the existence of 103 million ounces of IMF gold appears to offer a tempting alternative to an increase in IMF resources.

Unfortunately, there are pitfalls and costs that make such an alternative impractical and undesirable. My written statement provides background on how the IMF acquired the gold, describes the provisions governing its use, and comments in detail on the various proposals to use the IMF gold as an alternative or complement to the increase in IMF quotas and the general arrangements to borrow.

In my remarks today I would like to focus on the feasibility and implications of proposals to sell, lend or borrow against the IMF gold as an alternative or a partial alternative to the proposed increase in IMF resources.

The gold held by the IMF is legally owned by the institution and was obtained primarily from payment by members of the reserve portion of their quota subscriptions prior to the 1978 amendment of the IMF Articles of Agreement. Under the current IMF provisions, gold no longer plays its earlier central role in international monetary arrangements or the IMF but still represents the IMF's basic reserve available to satisfy creditors' claims on the Fund and to replenish the IMF's currency resources.

IMF HOLDS 103 MILLION OUNCES OF GOLD

At present, the IMF holds about 103 million ounces of gold which can be sold under two basic provisions of the amended IMF Articles of Agreement. First, the Fund may sell gold at prices based on market prices and, second, the Fund may sell gold to countries that were members on August 31, 1975 in proportion to their quotas on that date at a price of 35 SDR per ounce in exchange for their currencies.

Decisions to sell IMF gold requires an 85 percent majority. Subsequent decisions on use of the proceeds from IMF sales require a 70-percent majority vote for regular IMF operations and an 85-percent majority vote for all other purposes.

The IMF has no authority to lend gold to its members, which is one of the proposals that has been advanced. An amendment to the IMF Articles of Agreement would be required to permit such loans.

The proposals that have been advanced to mobilize IMF gold generally envisage sales to the private market with the proceeds used to finance IMF operations, sales to members at the old official price in proportion to August 1975 quotas—that is, the so-called restitution provision—loans of gold to members which they could borrow against, or use of the gold as collateral for IMF borrowing.

It's argued that these proposals will eliminate the domestic financial market effects of increasing IMF resources or, through restitution, compensate the members for their increased subscription and help developing countries meet their balance of payments financing needs.

However, these proposals are not a realistic alternative. They pose serious practical difficulties, could have major consequences for U.S economic, financial and political interests, and could undermine the IMF's ability to deal with the current problems.

From the point of view of the IMF, it would have to sell its entire gold stock at current market prices to generate the roughly $42 billion total agreed for the quota and GAB increase. This is not realistic. Such sales over a relatively brief period would probably depress the price in a major way, perhaps dramatically, to the detriment of the IMF resources, the gold reserves of member countries, and gold producers here and abroad. An effort to stretch the sales out over an extended period in order to minimize the price effects would leave the IMF without the resources to finance prospective commitments in the more immediate future.

Similarly, proposals to restitute IMF gold through sales to members in proportion to their 1975 quotas at the old official price would simply deplete the IMF's resources. Even if all the gold were sold in this way, the IMF would obtain the equivalent of only about $4 billion. Moreover, the countries experiencing the greatest financial problems would receive little benefit, much less than they could borrow from the IMF under appropriate conditionality with the proposed increase in IMF resources. Restitution would essentially represent a windfall for the wealthier IMF members, not a contribution to resolution of the debt problem.

GOLD COMMISSION REJECTS PROPOSED RESTITUTION

I should note in this connection that the Gold Commission established by Congress specifically considered and rejected the idea that the United States propose restitution of IMF gold to member countries.

At present, all IMF assets, including the IMF gold, serve as backing for creditors' claims on the Fund. Such claims currently total about $35 billion, including U.S. claims of $9.4 billion.

These claims are liquid international reserve assets of the creditors and the existence of the Fund's gold reserve provides needed assurance that these claims can be met if they are encashed. It is extremely unlikely that current IMF creditors would be willing to have this security eliminated as a result of IMF gold sales or subordinated to IMF pledges of gold to other lenders.

For these reasons, any discussion of IMF gold sales or borrowing against gold collateral would be contentious and protracted and it's extremely unlikely that the 85 percent majority vote that would be needed could be obtained for a decision to sell IMF gold. The creditors do not want their security impaired and neither the creditors nor the borrowers want to see the IMF's resources depleted.

We should also understand that, apart from the impossibility of negotiation, such proposals are not in our own interest. Consider the following. First, the United States is the single largest IMF creditor today with claims totalling $9.4 billion. Sale of the gold and use of the proceeds for IMF loans or collaterization of the gold for other lenders would remove this security for our claims. Second, major IMF gold sales could lead to a dramatic drop in gold prices and reduce the potential value of our own gold holdings. A

price drop of only $32 an ounce would totally offset the $8.5 billion the gold sellers say they want to save by stopping the increase in IMF resources. Third, the sale of gold would tend to put pressure on U.S. interest rates and financial markets similar to and possibly greater than those arising from any borrowing in connection with the quota increase. Fourth, IMF borrowings against the gold would also have similar effects on U.S. interest rates and financial markets. There is simply no reason to expect any benefit in terms of U.S. financial market conditions or domestic credit availability.

It seems to me, Mr. Chairman, that these direct economic and financial costs would far exceed any potential savings from foregoing the increase in IMF resources. Moreover, there are broader economic and political interests which must also be considered.

The IMF plays the central role in the internationally agreed strategy to deal with current world economic and financial strains in a way supportive of U.S. economic and political interests. After more than 2 years of negotiations, agreement has been reached on measures to assure that the IMF has adequate resources to fulfill its responsibilities. The heads of states of the major industrial countries meeting at Williamsburg a week ago endorsed the overall strategy and called for early ratification of the increase in IMF resources.

An effort by the United States to alter this agreement and, in effect, seek to deplete IMF assets instead, would be strongly and appropriately rebuffed by others, including our principal allies, with devastating consequences for international confidence in U.S. leadership.

Moreover, failure of the United States to participate in the increase in IMF resources would leave the IMF with inadequate funds to support orderly adjustment efforts. Many countries vital to U.S. economic and security interests would be forced to undertake severe and abrupt economic adjustment with seriously damaging effects on their own economic and political stability, the world economy, and the prospects for U.S. recovery.

PURPORTED SAVINGS TO UNITED STATES ARE ILLUSORY

In conclusion, the various IMF gold sales and lending proposals would not be desirable or feasible alternatives to the increase in IMF resources. The proposals would weaken, not strengthen, the institution. The purported savings to the United States are illusory. The potential costs are enormous. This should not be interpreted to mean, however, that the IMF gold should never be used. The gold is intended in part as a reserve for emergencies when other alternatives are impractical. Modest sales might be desirable, for example, should a crisis develop when other IMF resources are inadequate but preparations for a quota increase are not at an advanced stage. However, sales are not a viable alternative to the proposed increase in resources now before the Congress.

This committee has adopted the correct approach by endorsing the IMF legislation and strengthening it with your changes in the bank regulatory and supervisory area. The increase in U.S. participation in the IMF represents an appropriate investment in the

sound world economy essential for U.S. economic recovery. Thank you.

[The complete statement follows.]

STATEMENT OF THE HONORABLE BERYL W. SPRINKEL
UNDER SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
WASHINGTON, D.C.

June 6, 1983

Proposals for Use of IMF Gold

Mr. Chairman and members of the Committee:

It is a pleasure to appear before you today to discuss proposals to mobilize the IMF's gold holdings. At a time of budget constraints and domestic economic difficulties, it is natural for questions to be raised about the desirability of increased U.S. participation in the IMF and whether alternative techniques for financing the IMF are available and feasible. The existence of a 103 million ounce stock of gold in the IMF appears to offer a tempting alternative. Unfortunately, there are pitfalls and costs that make such an alternative impractical and undesirable.

As background to your consideration of this question, I would like to outline how the IMF obtained the gold, describe the provisions governing its use, and comment on the feasibility and implications of proposals to sell, lend, or borrow against IMF gold as an alternative to the increase in IMF quotas.

Historical Perspective

In the Bretton Woods monetary arrangements, gold played a central role i the IMF and in the international monetary system. Each nation undertook under the IMF Articles of Agreement to maintain a "par value" for its currency, expressed in terms of gold, and to maintain its currency within a small margin around the parity. As the system developed in practice, most countries maintained the par values for their currencies through intervention in the foreign exchange market by buying and selling their currencies for dollars, and the United States met its par value obligations by undertaking

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freely to buy and sell gold for officially held dollar balances at the official price of gold -- the dollar's par value. Thus, a system of fixed exchange rates and gold convertibility was established and maintained, with gold serving as the unit of account and the central reserve asset.

The central role of gold was also reflected in the IMF Articles relating to IMF transactions with its member countries, which provided for use of gold for payment of 25 percent of quota subscriptions, for repayment of IMF drawings, and for payment of charges to the IMF. By the early 1970s, the IMF's gold holdings had reached a level of 153 million ounces as a result of all transactions, but primarily reflecting quota subscriptions by its members.

The role of gold and the future disposition of the IMF's gold holdings became major issues during the discussions on reform of the international monetary system which culminated in agreements reached in August 1975 and January 1976. Those agreements provided for a number of steps designed to codify the flexible exchange rate arrangements that had evolved in practice and to phase out the central role of gold in the IMF's legal provisions and operations. They included amendments to the IMF Articles of Agreement which:

-- eliminated the par value and gold convertibility provisions;

-- abolished the official price of gold and the use of gold as the IMF's "numeraire" or common denominator for currencies;

-- eliminated gold as an important instrument for IMF transactions and prohibited the Fund from acquiring gold unless approved by an 85 percent majority vote; and

-- empowered the IMF to sell its gold holdings by decisions requiring an 85 percent majority vote.

In addition to these amendments, it was agreed to sell, under IMF authority existing at the time, 50 million ounces of gold held by the IMF, about one-third of its total holdings. Of this amount, 25 million ounces were sold to member countries in proportion to their IMF quotas in August 1975, at the official price of SDR 35 per ounce, in exchange for currency; the U.S. purchased 5.7 million ounces. The remaining 25 million ounces were sold at public auction over a four-year period, and the proceeds in excess of the official price were used for the benefit of developing countries, including establishment of a Trust Fund for balance of payments financing on highly concessional terms to the poorest countries.

These agreements reflected a balance between diverse and strongly-held views about the role of gold in the international monetary system, the desirability of retaining the gold as a sort of ultimate IMF reserve, and which countries or groups of countries should benefit from any IMF gold sales. Beyond the sale of the 50 million ounces, which could be and was decided by a simple majority

vote under the IMF Articles in effect at the time, the agreements included provisions, subsequently reflected in amendments to the Articles of Agreement, that no future sales would be possible except on the basis of a very high qualified majority -- 85 percent of the total voting power.

These agreed sales, completed in 1980, reduced the IMF's holdings to their current level of 103 million ounces. Under the amended IMF Articles of Agreement, this gold can be sold under two basic provisions:

-- First, the Fund may sell gold at prices based on market prices.

-- Second, the Fund may sell gold to countries that were members on August 31, 1975, in proportion to their quotas on that date, at a price of SDR 35 per ounce, in exchange for their currencies.

As I have indicated, any decision to sell IMF gold requires an 85 percent majority vote; subsequent decisions on use of the proceeds of sales by the IMF require a 70 percent majority vote for regular IMF operations and an 85 percent majority vote for all other purposes. There is no authority in the IMF Articles for the Fund to lend gold to member countries; an amendment of the Articles would be required for this purpose. Because of Congressional concerns with the Trust Fund element of the agreements reached in 1975 and 1976, prior Congressional authorization is now required for U.S. support for any additional Trust Fund under which IMF resources would be used for the special benefit of a single member or of a segment of the IMF membership.

Proposals for Use of IMF Gold

Several proposals have been advanced for "mobilization" of some or all of the IMF's gold holdings, either as an alternative to the agreed increase in quotas and expansion of the GAB, or in conjunction with those measures. These proposals vary, but generally envisage:

-- sales to the private market, with the proceeds used to finance regular IMF operations;

-- sales to members at the old official price of SDR 35 per ounce (now about $38) in proportion to August 1975 quotas -- under the so-called "restitution" provisions;

-- loans of gold to members, which they could borrow against; or

-- use of the gold as collateral for IMF borrowing.

The proponents of these proposals feel that they might eliminate the domestic financial market effects of increasing IMF resources or, through "restitution", compensate members for their increased subscriptions and help developing countries meet their

balance of payments financing needs. While the effects vary with each proposal, in general these approaches pose serious practical difficulties; could have major adverse consequences for U.S. economic, financial and political interests; and could undermine the IMF's ability to deal with current economic and financial problems.

a) Impact on IMF

As I have noted, the gold represents the IMF's basic reserve, available to satisfy creditors' claims on the Fund in the event of liquidation and to replenish the IMF's currency holdings. Unlike the quota increase, sales of IMF gold do not expand the Fund's resources, but mobilize an existing asset. Indeed, the IMF would have to sell its entire gold stock at current market prices to generate the roughly $42 billion total agreed for the quota and GAB increases.

This is not realistic. The gold markets are extremely thin and volatile, and the IMF would not be able to sell 103 million ounces over the next few years without depressing the gold price in a major way, perhaps drastically. In recent years, the annual supply of gold from mine production reaching the market has amounted to about 30 million ounces, less than a third of the proposed IMF sales. In 1975-1976, uncertainty about what would be done and later announcement of comparatively modest IMF sales were a contributing factor to a significant drop of gold prices.

The magnitudes involved here are massive, and could well have to be sold over a shorter period. An effort to stretch out IMF sales over an extended period, in order to minimize the price effects, would leave the IMF without adequate resources to finance prospective commitments over the next few years. The previous IMF sales of 25 million ounces were stretched over a four year period, from 1976 to 1980, in an attempt to avoid disrupting the market. However, the price dropped by about one-third during the year following the gold agreement, as the market positioned itself to absorb 25 million ounces. Sales of 103 million ounces would probably have to take place over a very extended period in order to avoid sharp price decreases and a major reduction in proceeds to the IMF. But we face an immediate problem in which the IMF's resources are being depleted rapidly, and its ability to enter into new commitments will be exhausted in the near future.

The increase in quotas and the GAB would provide substantial additional resources immediately, at a time of greatest strain on the institution and the system. Gold sales would provide too little, and not in time to deal with the real problems that exist now; and they could themselves lead to substantial monetary disruption.

Similarly, proposals to "restitute" IMF gold, through sales to members at the old official price, would effectively deplete the IMF's resources; such sales would not strengthen the IMF's ability to deal with current problems, nor would they help solve the problems of the IMF's members in greatest difficulty.

The effect of this proposal is that, in total, members would obtain gold worth at present prices more than $40 billion at a cost of $4 billion. Moreover, the countries experiencing the greatest financial problems would receive little significant benefit -- indeed, a large loss, in net terms. The 110 non-oil developing country members of the IMF would receive about 25 percent of the total sale of gold. Even the largest LDC debtors -- Mexico, Brazil and Argentina -- would each receive only about $550 million worth of gold at present prices. This compares in the Mexican case, for example, with an IMF program totaling the equivalent of nearly $4 billion over three years.

The point is that the amounts individual developing countries might be able to receive through "restitution" would be far less than they would be eligible to borrow from the IMF -- on a conditional basis -- if the IMF continues to function and if they continue to meet the economic adjustment objectives set out in their IMF programs. Restitution is not a way of strengthening the IMF and is not a contribution to resolution of world financial problems. In essence, it is a get rich quick scheme for the wealthier countries. In this connection, I would point out that the U.S. Gold Commission established by Congress specifically considered and rejected a recommendation that the United States propose restitution of IMF gold to member countries.

At present, all IMF assets, including the Fund's gold, serve as backing for creditors' claims on the IMF. These claims arise from use of members' quota subscriptions and from loans by members to the Fund, and are liquid reserve assets which may be used automatically, and on short notice, to acquire currencies from the IMF to meet a balance of payments need. Such claims on the IMF currently total about $35 billion, somewhat less than the value of the IMF gold at current market prices.

In the event that creditors sought to encash their claims to meet balance of payments financing needs and the IMF's available usable currency resources were inadequate, the Fund would be able as a last resort to mobilize the gold to acquire the necessary currencies. Moreover, in the event of liquidation of the IMF, the creditors would have first claim on the gold should other resources be insufficient. It is extremely unlikely that current IMF creditors would be willing to have the ultimate security for their claims eliminated as a result of IMF gold sales or subordinated by the Fund pledging the gold as security for additional borrowing from governments or the markets. Such action could induce current lenders to seek alternative safeguards which would limit the IMF's ability to provide financing, and might well even lead some creditors to encash their liquid claims on the IMF.

For these reasons, any discussion of IMF gold sales or borrowing against gold collateral would be contentious and protracted. It is extremely unlikely -- indeed, impossible -- that the 85 percent majority vote needed could be obtained for a decision to sell all or substantially all of the IMF's gold in lieu of or even along with the quota increase. The major IMF creditors will not want to see the security for their claims eliminated or eroded.

The borrowers will not agree to a restitution which primarily benefits the strongest members. From the perspective of creditors and debtors alike, use of IMF gold is not a viable alternative to the proposed increase in IMF resources. And we should understand clearly that, apart from the impossibility of negotiation, such proposals are not in our own interests.

b) U.S. economic and financial interests

The IMF is a revolving fund of currencies, in which each member has an obligation to permit its currency to be used to finance IMF drawings by other countries. Over the years, the U.S. quota subscription has been drawn on frequently, and we have drawn frequently on others' subscriptions. The U.S. quota subscription has not financed a disproportionate share of IMF drawings. From the inception of the IMF to the end of 1982, the U.S. share of IMF quotas has averaged about 26-1/2 percent; the U.S. currency subscription has been called on to finance only about 22 percent of gross drawings on the IMF. At the same time, U.S. drawings of the currencies of other countries have totaled about $6.5 billion, the second largest use of the entire membership.

As explained in previous testimony before this Committee, U.S. transactions with the IMF do not affect net budget outlays or the Federal budget deficit. Transfers to and from the IMF do affect the Treasury's cash position and borrowing requirements. The budget results are affected by the net cost or gains resulting from financing these transfers and from exchange gains and losses due to changes in the dollar value of our SDR-denominated reserve position in the IMF. From the beginning of FY 1970 to the end of calendar 1982, it is estimated that the annual average net budget cost to the United States of participation in the IMF amounted to about $107 million annually.

Moreover, to the extent that net transfers to the IMF under the U.S. quota subscription raise the Treasury's borrowing requirements, this affects domestic money and capital markets by absorbing savings that would otherwise be available to finance private domestic consumption and investment.

It is not possible to project reliably the magnitude of U.S. cash transfers to and from the IMF or the impact on U.S. financial markets. The effects will depend upon the the magnitude of IMF financing, the proportion reflected in use of dollars, whether the U.S. itself drew from the IMF, and conditions in financial markets. However, the amount of increased Treasury borrowing, and thus the economic impact, is likely to be quite limited, because any drawdowns on the U.S. quota will be stretched out over time. For example, even full commitment of the $5.8 billion increase in the U.S. quota in 1984 -- a highly unlikely assumption -- would likely result in additional Treasury borrowing requirements amounting only to about $1 to 1-1/2 billion annually over FY 1984-87. This compares with net new Treasury borrowing requirements in FY 1984 in excess of $200 billion, and total outstanding U.S. debt of $1.2 trillion as of April 30, 1983.

The impact of this minor annual increase in annual Treasury borrowing is what the proponents of IMF gold sales are seeking to avert, not the approximately $8.5 billion which has been requested as budget authorization and appropriations. The economic and financial effects of IMF gold sales on the U.S. could, however, far outweigh any costs associated with these borrowings.

Consider the following:

-- First, the U.S. is the single largest IMF creditor today, with claims on the IMF totaling $9.4 billion. Sale of the gold and use of the proceeds for IMF loans would remove this ultimate security for our claims.

-- Second, major IMF gold sales could lead to a dramatic drop in gold prices and reduce the potential value of our own gold holdings, currently amounting to 264 million ounces ($109 billion at current market prices). A price drop of only $32 an ounce -- a blink of the eye in the gold market -- would totally offset the $8.5 billion the gold sales advocates say they want to save by stopping the quota increase. A very much larger price drop, which seems more likely in the face of large-scale IMF gold sales, would have serious adverse consequences for domestic gold producers and precipitate large losses on the gold stocks of the United States and other countries.

-- Third, the sale of gold does <u>not</u> eliminate the financial market effects that concern some in connection with the quota increase and potential Treasury borrowing. The gold would be acquired primarily for investment purposes and transactions in the gold market would be largely in terms of dollars. When IMF gold is sold, the purchasers will pay for the gold by selling dollar securities such as corporate or U.S. Treasury securities. This would tend to put pressures on interest rates and financial markets similar to and possibly greater than those arising from any U.S. borrowing in connection with the quota increase.

-- Fourth, IMF borrowing against the gold would also affect U.S. capital markets in ways similar to and possibly greater than any Treasury borrowings in connection with the quota increase. There is simply no basis for assertions that this borrowing proposal would lead to benefits in terms of U.S. credit market conditions or domestic credit availability.

It seems to me, Mr. Chairman, that these direct economic and financial costs would far exceed the potential savings from foregoing the quota increase. In addition, account must also be taken of broader U.S. economic and political interests.

c) U.S. Political Interests

The IMF plays the central role in an internationally agreed strategy to deal with current world economic and financial strains in a way supportive of U.S. economic and foreign policy interests. Its ability to meet its responsibilities depends importantly on assuring that it has adequate resources to support orderly, effective economic adjustments by those countries experiencing balance of payments difficulties. The jobs of millions of Americans, the health of our banking system, and the prospects for sustained U.S. and world economic recovery depend importantly on the IMF's success in maintaining the stable financial framework that is essential for world trade to prosper.

After more than two years of negotiation, international agreement has been reached on measures to assure that the IMF has adequate resources to fulfill its important responsibilities. Most IMF members sought a much larger increase in IMF quotas than the United States considered practical or desirable. We believe that the 47 percent increase in IMF quotas should be adequate to meet official financing needs in normal circumstances and that the expansion and revision of the GAB should strengthen the IMF's ability to deal with serious threats to the stability of the system in the event that other IMF resources are inadequate.

The Congress is now being asked to approve legislation providing for the U.S. share of the increase in IMF resources -- a share that is only 18 percent of the total increase in quotas. The Heads of State of the major industrial countries, meeting at Williamsburg, have endorsed the overall strategy to deal with the debt situation and committed members to seek early ratification of the increase in IMF resources. An effort by the United States to alter the IMF agreement, which is at the heart of the international strategy, and in effect to deplete the IMF's assets instead, would be strongly and appropriately rebuffed by other countries -- with devastating consequences for international confidence in U.S. leadership. Moreover, failure of the United States to participate in the increase in IMF resources would leave the IMF with inadequate funds to support orderly adjustment efforts. Many developing countries -- including countries vital to U.S. economic and security interests -- would be forced to undertake severe and abrupt economic and financial contraction which would lead to serious political and social instability and pose serious threats to U.S. and world economic recovery.

Conclusion

In conclusion, Mr. Chairman, the various IMF gold sales proposals would not be appropriate or desirable alternatives to the quota and GAB increases. These proposals would weaken, not strengthen, the institution and therefore would be unacceptable to our allies. The purported financial savings to the United States are illusory. The potential costs -- in term of global economic and financial instability, domestic economic recovery and jobs, and vital U.S. political and security interests -- are enormous.

This should not be interpreted to mean, however, that the IMF gold should never be used. The gold is intended in part as a reserve to be used in emergency situations when other alternatives are not practical -- for example, should a crisis develop when other IMF resources are inadequate but preparations for a quota increase are not at an advanced stage. However, such sales are not a viable alternative to the agreed increase in IMF quotas and the GAB.

I hear it said with increasing frequency that the financial crisis is over, that the IMF increase is not needed now, that we can go on about our business. The crisis is not over. If it seems to have eased, that is in large part because a cooperative international effort to deal with it -- centered on the IMF and the agreed increase in its resources -- has been launched and is beginning to show positive results.

This Committee, and the Senate Foreign Relations and House Banking Committees, have adopted the correct approach by overwhelmingly endorsing the IMF legislation. The increase in the U.S. quota and GAB commitment represent modest investments in the stable financial framework that is essential for world trade to prosper. As such, it is a vital complement to domestic efforts to achieve economic recovery and expanding job opportunities for all Americans. I therefore urge prompt passage of this legislation.

The CHAIRMAN. Thank you, Mr. Secretary.

The argument is made by many, and particularly in articles the last couple weeks, that the international debt crisis is over, that it has simply passed and that there's no longer any need for an increase in IMF resources. You mentioned that in your summary. Would you expand on that to the committee, please?

Mr. SPRINKEL. In my opinion, the problems of international debt are not over. We were able to handle successfully the first round of difficulties through a multilateral effort consisting of cooperation by our friends abroad as well as our own institutions, the Treasury and the Federal Reserve. IMF programs are in place in many of these countries. Some are adjusting fully. Others are in the process of attempting to adjust fully. There are other countries that have a sizable amount of debt—which are not in IMF programs; and are not voluntarily adjusting—that may have some difficulty subsequently.

IMF RAPIDLY RUNNING OUT OF RESOURCES

So I would not conclude that we have resolved all the international problems. One of the great difficulties is that the IMF is rapidly running out of resources. It's already significantly overcommitted in terms of borrowed resources. By year end, the overcommitment will be larger. Therefore, we think it prudent and critically important that Congress approve our request for the $8.4 billion augmentation to IMF resources so that as additional problems come down the pike—and we expect some to come—the institution which is the centerpiece of our strategy for resolving the problems will be able to participate.

The CHAIRMAN. If the increase were not granted, when would you anticipate that the IMF present funds would be fully committed?

Mr. SPRINKEL. Well, they have already overcommitted borrowing resources to the tune of several billion dollars. They still have some owned resources. But it's our belief that over the next several months—depending on the ratio of owned to borrowed resources that are used—those will also be committed. So by the latter part of the year they're going to be strapped in terms of ability to continue to perform the critical role that they have played over the past year.

In fact, it may well be that some additional short-run financing may have to be acquired before year end even under the best of circumstances.

So I can't answer your question precisely because the day they run out depends on events which neither I nor anybody else can perfectly predict, but we're moving into the period where they're very short of resources.

The CHAIRMAN. If we were picking the option of mobilizing the IMF's gold reserves rather than increasing the quotas and the GAB, would this require new negotiation of an international agreement?

Mr. SPRINKEL. It probably would. Certainly it would require an effort to get an 85-percent majority in order to mobilize those resources. In our discussion with our allies during the period when we were attempting to negotiate the IMF agreement, we ran into enormous resistance to selling off some of the IMF's gold. We pursued that question to see whether it would be possible to obtain the required 85-percent majority and, based on those talks, I would suspect that might be impossible; certainly extremely difficult.

We have entered into an agreement, which heads of states also endorsed last weekend, and if we do not live up to that agreement, clearly there will have to be some additional negotiations to find what kind of an agreement would be satisfactory.

The CHAIRMAN. The argument is made by some that the IMF was created under a fixed exchange rate system and now that we have abandoned fixed exchange rates there's no need for the IMF. How would you respond to that?

Mr. SPRINKEL. Well, they clearly are performing a different role in the present circumstances than was true back when we had a fixed exchange rate system. If it were true that all countries in fact were voluntarily converging on low inflation and higher economic growth and that they were not using internal subsidies and were not discouraging efficient international trade—if we could imagine such a world—it would be very difficult for me to imagine a role for the IMF. But that's not the world we live in. We live in a world where many countries have borrowed beyond their ability to repay given the disinflationary environment that we're all attempting to encourage. We live in a world where commodity prices during that disinflationary environment have come down, although very recently some of them have recovered a moderate amount. We live in a world where some countries, friends of ours, still have inflation rates of 100 percent, plus or minus a little bit with no convergence whatsoever. We live in a political world where some governments delay adjustment because of politicai pressures. There clearly are some countries that are likely to move into a request of the IMF.

So it's true the IMF has a different function today. I think it's not true that they have failed for the past year. In fact, they have been enormously successful in encouraging countries with their own cooperation to move into IMF adjustment programs. They have been successful in estimating the amount of financing required if those countries do move into an adjustment program, and they have been successful, with the help of others, in acquiring that financing.

So I think they are playing an absolutely critical role and it's for that reason that we have placed them at the focal point of our strategy for resolving the debt issue. It's not just a U.S. strategy. It has been explained abroad and it has been adopted by other governments. So I think the IMF has a very important role, even though we have a flexible exchange rate system.

PROPOSED RETURN OF FIXED EXCHANGE RATE SYSTEM

The CHAIRMAN. How would you respond to the suggestion of some that in order to have the increase that we return to fixed rates or at least less flexible exchange rates than we have now?

Mr. SPRINKEL. Well, again, if we had a world in which perfect convergence was occurring or something reasonably close to converging—that is, most of the major countries had low inflation and were pursuing policies to keep low levels of inflation and to encourage economic expansion—if in fact that was the world we were in, it would not much matter whether we had a flexible exchange rate system or a fixed rate system.

In both cases, with low inflation, you would not expect exchange rates to move very much. That is, a flexible system would not lead to wild oscillation in exchange rates. It would be a very modest movement in exchange rates.

We haven't arrived there yet. Some of the leading nations are now converging more nearly than at any time, say, in the last decade, and I would especially mention Japan, the United States, the United Kingdom, Germany; but some others still have inflation rates of 15 and 20 percent and some are more than that. In that sort of an environment, it's very difficult to keep a fixed exchange rate system.

As you know, both at Versailles and again at Williamsburg, the U.S. effort was to encourage convergence. We moved at Williamsburg to set out the kinds of economic policies that are desirable. We talked about moderate growth in monetary aggregates with appropriate interest rates. We talked about restraint on Government spending and trying to get the budget deficit under control. We talked about cooperation on exchange rates, including more discussion between ministers and deputy finance ministers. We also talked about policies likely to improve productivity and employment, such as R&D and other such measures.

The whole effort is to move us toward a situation where exchange rates don't move a lot. None of us like major movements in exchange rates because they send the wrong—or they send a changing signal to exporters and importers. So the other agreement that we reached at Williamsburg which touches on the question you've asked, Mr. Chairman, was the statement to the effect

that finance ministers would be meeting with the managing director of the IMF to consider the conditions that are necessary for encouraging stable exchange rates, including the possibility at some point in time of a high level international monetary conference to consider what kind of improvements can occur in the system. President Mitterrand was very clear in saying he was not talking about a fixed rate system, at least not in the short run, and neither are we. Our efforts are to converge. To say that we have the best system in the world would be wrong. There must be things we can do to improve it, and we hope to be working on it.

The CHAIRMAN. Senator Hawkins.

Senator HAWKINS. Thank you, Mr. Chairman. I'd like to thank you for calling these hearings as we agreed to do during markup of S.695 and for being here personally. I really appreciate it.

USE OF GOLD RESERVES IN EMERGENCY SITUATIONS

Mr. Sprinkel, what is your definition of an IMF emergency?

Mr. SPRINKEL. Of an emergency?

Senator HAWKINS. Yes.

Mr. SPRINKEL. You're talking about the possibility of when it might make some sense to sell gold; is that correct?

Senator HAWKINS. In your statement you say that IMF gold reserves should be used in emergency situations when other alternatives are not practical.

Mr. SPRINKEL. Right.

Senator HAWKINS. What is your definition of an IMF emergency?

Mr. SPRINKEL. The one that I had in mind was a possibility where IMF resources are exhausted or nearly exhausted, where the negotiations on an augmentation of the quotas and GAB were far into the future—that is, we had not moved through the negotiating process which normally takes 2 years or longer, there had been no agreement——

Senator HAWKINS. Excuse me, but let me interrupt you a moment. Negotiating, does that mean negotiating to reschedule existing IMF loans?

Mr. SPRINKEL. No, ma'am. This means negotiating between nations, members of the IMF, to come up with additional resources. And we did go through something over 2 years of negotiation with our counterpartners in the IMF to decide how large it could be, how large it should be, and also to decide some reallocation of quotas within the membership. So that if we had not done that——

Senator HAWKINS. We would be in an emergency?

Mr. SPRINKEL [continuing]. And they had run out of resources, I would consider that to be an emergency.

Senator HAWKINS. What is your definition of a resource? You used that word often.

Mr. SPRINKEL. Well, by resources, I was referring both to owned resources and also to borrowed resources. The IMF tries to keep a reasonable ratio between utilization of funds that have been contributed by members and that were borrowed from some source. As you know, they have borrowed money from, for example, Saudi Arabia; the first two tranches have been delivered, the third one

still has not been completed. But they have both owned and borrowed resources.

Senator HAWKINS. And you're running short of resources you say in the statement.

Mr. SPRINKEL. Yes; they are overcommitted on borrowed resources and there will be several billion dollars additional overcommitment. That's not the end of the world——

Senator HAWKINS. Is it an emergency?

Mr. SPRINKEL [continuing]. If in fact it looks highly probable that the agreed upon GAB and quota increase is going to be delivered somewhere in the latter part of the year, they can temporarily overextend. Normally, the United States as well as other governments, have been reluctant to see an overcommitment over and above the resources they have. But in the short run when there's a high probability they will get more resources in the latter part of the year, we have been willing to see some overcommitment in the short run.

Senator HAWKINS. Well, what do you mean when you talk about an adjustment program?

IMF ADJUSTMENT PROGRAMS

Mr. SPRINKEL. What I was referring to in the statement of adjustment programs relates to the arrangement reached between the individual government, whoever it might be—Mexico, Brazil, Chile, Argentina—and the IMF as to the kinds of changes typically required in that country's domestic and international economic policy. They are all independently negotiated between the IMF and the country involved. They vary somewhat, but there's a certain commonality between them.

They would typically, not always, but typically would include probably a devaluation of the currency because when they get into difficulties, running large deficits in their balance of payments it's frequently because of an overvalued currency, so that would be one typical portion of the package. Frequently you will find that they have a very easy money policy in the sense that they have massive growth in monetary aggregates, a very tight money policy in the sense that they have very high interest rates and high inflation. So there would typically be some kind of a requirement to get their money supplies under control. Almost always they would be running very large budget deficits with percentages of GNP even greater than our own today, maybe running 12, 15 percent or even higher, so there would be requirements by the IMF that that deficit be reduced, frequently through reduced spending.

There might be subsidies that the IMF would refurnish and that would again relate to the budget reduction.

So when I talk about adjustment programs, I'm talking about the kind of economic policy changes required of the borrowers in order to correct the instability that led to the request for the loan in the first place. That is, to the extent we have good conditionality, it hastens the day when we will not have worldwide credit problems, that countries can pay off the IMF, and that there will be fewer requests for resources.

Senator HAWKINS. Should I conclude from your statement that you believe that the IMF can be used as a tool for lowering other nations' inflation and interest rates.

Mr. SPRINKEL. Yes, ma'am. They would typically have requirements on both the monetary and fiscal side which would tend to lower the average inflation rate in foreign governments.

Now frequently there are some short-run problems. The borrowers usually have price controls, and the IMF will require them to start releasing their artificial prices. So in the short run, that, plus the devaluation, may kick the inflation rate up in those nations, but pursuing more carefully orchestrated monetary and fiscal policies will certainly tend to move down the inflation rate once they get past those temporary aberrations.

So, yes, ma'am, it is a way to get the inflation rates down in foreign governments.

Senator HAWKINS. What assurance can U.S. citizens have that borrowing countries are going to lower their interest rates and lower their inflation rates?

Mr. SPRINKEL. Well, there are two kinds of assurances that one can think of. Neither are perfect. We know, No. 1, that the IMF does not provide all of its money up front to an individual country. It typically will make the money available in fractions and before the first one was paid there would be an agreement between the country and the IMF on certain standards that must be met.

Now suppose they don't meet them. There will be no second payment until they get back in conformance with the IMF requirement. If they do get into conformance, then presumably the second payment will be made.

Senator HAWKINS. Can you assure the U.S. citizens that if a borrowing country does not meet the terms that were set up prior to the first payment it will not receive a second payment?

Mr. SPRINKEL. We continue to talk with foreign governments on an ongoing way, but I can assure you that we will not lean on the IMF and our friends around the world to ease up conditionality because some nation in the short run did not meet its target. We think it's very important that the adjustment occur.

Now there are other things that are important, such as getting economic growth going in our own countries, keeping our markets open, but critically important to the total strategy for solving the debt problem is that the countries adjust. And I can assure you that if they do not conform with the IMF agreement we will not pressure the IMF to make the loan anyway.

Senator HAWKINS. Could we have——

NATIONS HAVE ALWAYS PAID OFF IMF LOANS

Mr. SPRINKEL. Now the second point I wanted to make, Senator Hawkins, relates to the fact that we know historically that nations have always paid off the IMF.

Senator HAWKINS. That was my next question. What has been the repayment record on IMF loans?

Mr. SPRINKEL. They have always been repaid.

Senator HAWKINS. Is that perfect?

Mr. SPRINKEL. No, madam. It was not perfect because they were not always all repaid on schedule, but they have been paid. Now

the reason for that, in my opinion, is that unless a country repays its obligations to the IMF, it almost certainly will find it impossible to go into the open market and acquire funds. So it is very important that they keep the slate clean with the most important international monetary organization in the world because that can have a very important indirect effect upon the ability of that country to attract capital.

Senator HAWKINS. I have some further questions but Senator Mattingly I'm sure is interested in this subject also.

The CHAIRMAN. Senator Mattingly.

Senator MATTINGLY. Thank you, Mr. Chairman.

Mr. Sprinkel, how are you doing this morning?

Mr. SPRINKEL. Very good, sir.

Senator MATTINGLY. I assume you don't want to sell the gold, right?

Mr. SPRINKEL. That's right.

Senator MATTINGLY. We can start with that. Is it feasible to establish a gold lending facility, whereby the Fund would lend gold to Fund members who in turn would use such gold as collateral for commercial loans in the private sector?

Mr. SPRINKEL. Not under present ground rules. There is no authority for the IMF to loan gold to its members.

Now we could go back and revise the articles perhaps if we could get sufficient votes, but under present ground rules that is not possible.

Senator MATTINGLY. Are you talking about the required 85 percent vote?

Mr. SPRINKEL. Yes, sir; and that's not easy to change.

Senator MATTINGLY. That doesn't include the "hammer" of the veto, right? We can use that?

Mr. SPRINKEL. No, sir.

Senator MATTINGLY. Has anybody ever suggested it?

Mr. SPRINKEL. Well, I know there have been some proposals over the last some weeks to that effect, but we have not attempted ourselves to go out and see if you could get up enough votes. I don't think we could.

Senator MATTINGLY. Why not?

Mr. SPRINKEL. Well, we did talk in great detail at the time this negotiation was occurring about the possibility of someway or other utilizing some of the gold, and it became very clear that our counterparts abroad, especially the large creditors like us, felt that the gold was the most important security they had for the credit they made available to the IMF, and they obviously did not want to weaken their security. Hence, they didn't want to sell the gold, loan the gold, get rid of the gold in general.

Senator MATTINGLY. Well, of course, talking about weakening their security, I think what's happening is the IMF is growing weaker itself. That's the image of the people of the world right now; and I think the more hearings we hold, the more we're going to find out what's going on at the IMF. The IMF is out of money.

Mr. SPRINKEL. Yes, sir, in some ways.

Senator MATTINGLY. About 30 days ago or less than 30 days ago I had lunch at the IMF with the president of the IMF and he said they're out of money. They're broke. They don't want to sell gold.

You don't want to sell the gold. Nobody wants to sell the gold. Nobody even wants to look at selling the gold as an alternative.

Now you're talking about holding a high level monetary conference in the world to finish the Williamsburg "whitewash" which to me has not resolved any problems either. It's nothing but conversation.

Now what we want is to put some $30 billion, if I'm not mistaken, into the IMF, and they don't want to sell the gold and we know the $30 billion is really not going to resolve the problem.

RESTRUCTURING LOANS

I just came back from Europe. I haven't met anybody over there that thinks that that is going to resolve the problem. Now what's wrong? If you don't want to sell the gold, and they don't want to, what would be wrong with the IMF restructuring the loans where you wouldn't even need the money?

Mr. SPRINKEL. Well, of course, there is in certain circumstances a restructuring going on. Typically, when a country gets into difficulty ——

Senator MATTINGLY. If the IMF loans were all being restructured, they wouldn't need new money.

Mr. SPRINKEL. But it also would take the heat off the countries to adjust and therefore would not solve the problem. That is, across-the-board restructuring.

Senator MATTINGLY. Rephrase that for me. You say it will take the heat off of them in what way?

Mr. SPRINKEL. Well, as I indicated, for countries to borrow from the IMF and to encourage foreign lenders to look favorably upon their situation, they typically must agree to adjust; that is, in the direction that Senator Hawkins and I were talking about, get their inflation rates down, get their interest rates down.

Senator MATTINGLY. With the economic policies that the IMF says to use?

Mr. SPRINKEL. Sir?

Senator MATTINGLY. They're trying to utilize policies that the IMF said they've got to use?

Mr. SPRINKEL. Yes, sir; that's correct.

Senator MATTINGLY. Export more and import less?

Mr. SPRINKEL. Importing less and exporting more because they start out with very large deficits. Then the need for additional funds is reduced and hopefully eliminated.

Now if we immediately, through some massive, overriding approach, attempted to reschedule all debt, why would they adjust? I mean, if they don't have any problem because they've pushed off their requirements, they probably wouldn't go to the IMF. They certainly would not work hard at getting economic stability occurring. However, restructuring within the context of an IMF role may sometimes be useful.

Senator MATTINGLY. If you let them borrow more, you say that they're going to adopt the policies?

Mr. SPRINKEL. Otherwise, they can't get money from the IMF.

Senator MATTINGLY. That just doesn't wash.

Mr. SPRINKEL. That's the way it works.

Senator MATTINGLY. I mean, that's the way they've tried to make it work, but it's not working.

Mr. SPRINKEL. I think it's working very well, sir.

Senator MATTINGLY. You do?

Mr. SPRINKEL. Yes, sir.

Senator MATTINGLY. Well, we'll go down to Brazil and check them out. I don't see it working there. I know that countries like Spain are getting ready to request money from the IMF and there are a lot of countries going to be asking for money from the IMF.

Mr. SPRINKEL. There are no free lunches to go to the IMF.

Senator MATTINGLY. I know, it costs the taxpayers money.

Mr. SPRINKEL. That's true. It also does indeed cost the taxpayer money. Now it's spread over a number of years and we do get payment on the reserve asset we receive but we do have to finance it, of course. So essentially the difference between what it costs us to finance it and the payment we get on the IMF reserves is what the IMF cost is.

Senator MATTINGLY. I'm not blaming you. I'm not blaming anybody. I just think that what we've had is a lot of policies that used to work that don't work any more. That's what my deep feeling is and I don't want not to fund the IMF and cause any more ripples than we currently have, but I also think that we ought to be objective—us and the whole IMF—in saying that maybe—you say—and I disagree—that by restructuring the IMF loans somebody won't comply with the policies that they've laid down by the IMF. I disagree with that. I think that countries would continue to try to adapt to policies that they set out. I think that you can name many countries that they stretch out the loans. I think they would be just as willing to try to adapt and I think you see the social unrest that they refer to in Brazil happening there—I'm sure Brazil doesn't want to continue to have high inflation and all the problems they've got down there. I think that a restructuring of the IMF loan in that country would come as close to trying to solve the problem as—I think the next payment is $950 million to the IMF, isn't that correct? So I just think we ought to be a little more pragmatic. I'm just saying to look at it from that point of view.

CURRENCY INTERVENTION

You also mentioned something about fixed exchange rates. Knowing that most of these countries have got a lot of currency problems, do you think there would be any desire to have some type of currency intervention since we know we're not going to have fixed exchange rates? What do you think about that?

Mr. SPRINKEL. Well, as you know, the U.S. Government suggested at Versailles that an intensive study be done of intervention, whether or not it was useful, useless, costless, costly, under what circumstances would it work, when wouldn't it work. This suggestion was accepted by the seven governments plus the EC. A major study was launched. It was completed in January of this year and in April of this year the ministers of the G–7, meeting here in Washington, released a summary of that study plus the policy implications.

Now I'm coming to the point you asked, do we think intervention is useful? Under certain limited conditions, we think it is useful. That is, we agree on certain results of the study. Number one, short-run intervention can have a short-run effect, but a short-run only effect, on the exchange rate. That is, if it does not represent a change in policy—that is on monetary or fiscal policy—sterilized, intervention per se can only have a temporary short-run effect. But if there is coordinated intervention, even though it has a short-run effect, there's more than one government involved, it can probably be more effective. Third, and by far the most important point, is that the only way you can change exchange rates in a fundamental way and get them to stay changed is through a policy change on the monetary or fiscal side.

Now we agreed to intervene multilaterally when there is agreement that disorderly markets exist. We did not agree, because it's contrary to all the evidence, that we should try to change the equilibrium level of the exchange rates in the absence of policy change.

So we do have a policy of coordinated intervention on those occasions where we are all agreed that it's disorderly and we agree it would be desirable to intervene. Otherwise, we do not intervene.

Senator MATTINGLY. Do you think it would be worthwhile for the central banks of different countries to intervene? Basically, I guess that's what we're saying.

Mr. SPRINKEL. That's the same point that you asked, and under certain very limited conditions I think it's worthwhile. Under other conditions, I think it's not worthwhile.

Senator MATTINGLY. That has not been done for a while, has it?

Mr. SPRINKEL. Not for a while; no, sir.

Senator MATTINGLY. One quick thing. Do you think there would be——

Mr. SPRINKEL. By other governments there have. I mean by the United States.

IMPACT ON THE MARKET PRICE OF GOLD

Senator MATTINGLY. What do you think would be the impact on the market price of gold if they sold half the gold?

Mr. SPRINKEL. Well, it's very difficult to predict. I had my staff do some work based on the past as well as what we thought the situation was today. I did not ask them about selling half the gold. I said sell it all over a number of years. And total estimated new supply coming into the markets is about 30 million ounces a year. We would be selling more than three times that amount and at least if we did it over 3 years, an amount equal to the normal new supply coming into the marketplace. If we did it over 5, it would be a little less than that. We think it will have a very important negative effect on the price. Now how negative, we don't know for sure, but the order of magnitude that I got back from their guesses, because no one knows, is that it would knock it to $200 to $250 an ounce and that's quite a bit. If it dropped as much as $32 an ounce, it would reduce the value of our holdings, the total, $8.4 billion.

Senator MATTINGLY. My time is up. I will come back to that later. Thank you.

The CHAIRMAN. Let me just make a comment before I turn to Senator Hecht.

I very rarely disagree with my colleague from Georgia. As we've studied this issue over the last year or 2 years, in my opinion, there are no good alternatives to the situation. There are solutions that are less onerous than others. I have chosen the quota increase as the least worst, if I could use the terrible English, and I think that is the situation.

But when I look at the causes that is where I disagree with my colleague in talking about these countries showing restraint just by restructuring. Mac, you're kidding yourself. Look at us. Great Britain is the No. 1 user of the IMF. The United States is second. And we're sitting here with $1,400,000,000 debt with interest on the national debt in excess of $125 billion, and a $200 billion deficit. I sometimes wish the IMF would put some controls on us. We are showing no restraint at all.

This is primarily a world political problem of gutless politicians in this country and Brazil and Mexico and Europe and every other place who simply have been buying votes year after year after year and spending far more taxpayers' money than they are willing to take in. That is the genesis and the major problem. We can blame it on high oil prices and everything else. It's irresponsible politicians. It's in this country. It's in England. It's in France. It's in every country we look at. There has been no restraint and I wish there would be. I wish we could say, well, if we just restructure the loans. There is an appetite for borrowing and spending money to buy votes in every western country that has been out of control for three decades and we can't talk about an example being set in these other countries because we are one of the worst. We are unwilling to discipline ourselves fiscally. It's much more fun to blame it on Paul Volcker and the Fed or someone else. We are fiscally irresponsible. We haven't got our own house in order. I don't know how we can ask others.

You go to Williamsburg. Sure, it's talk. They go down there and they gloss over everything. But who are we, with $200 billion deficits and borrowing over 70 percent of the total private sector capital to finance our debt—who are we to tell these other countries how to behave?

I wish I knew the answer—I do not—to politicians and their greed to buy votes with taxpayers' dollars, but it's a continuing problem. So I guess we grasp at straws and if the IMF can provide a little bit of discipline, maybe that's helpful, but I see no way that our country or these others are going to discipline themselves without someone trying to tell us to.

Senator MATTINGLY. May I make one comment, Mr. Chairman. I hope you weren't referring to me as one of the politicians having greed?

The CHAIRMAN. No. If your and my voting record had been followed, the national debt would be considerably less.

Senator MATTINGLY. What I'm referring to in IMF restructuring loans, though, is I think it's a poor policy that doesn't consider that maybe some countries could have IMF loans restructured. I'm not saying restructure every country's IMF loan. But the same thing with selling gold. It would seem to me to border on the absurd—

just ignoring the facts that maybe we should consider selling gold, we should consider restructuring loans. When we look at the policies of the IMF as an institution, it's not working. I'm just saying that it's a good thing that we have the hearings and that maybe we ought to try and look at different ways to do things. I've talked to IMF directors from other countries and they agree that it's not working.

The CHAIRMAN. I don't disagree with you, Mac. I'm just trying to make the point that underlying all of this problem is the inability of legislative bodies to control themselves.

Senator MATTINGLY. You mean the House of Representatives. [Laughter.]

The CHAIRMAN. And selling gold or part of it may be helpful in the short run. I don't care whether we increase the GAB, the quota increase, sell gold, or hold more meetings and all of this. It's only going to be short term. Every one of them will be short term and to indicate that $8.4 billion is going to solve the problem, which I will vote for when it comes before the floor because as I said it's my least worst alternative, but underlying all of this is the fiscal irresponsibility of legislative bodies throughout the free world. And I don't care what we do. We could sell all the gold if that would work and wouldn't depress the price and everything Beryl says is wrong with doing that, but unless we start to control ourselves, nothing is going to work. It just is not going to work. The fundamental basis is the irresponsible fiscal policy of legislative bodies in the Western World and until we learn to discipline ourselves, have limitations on our terms or whatever can be done to show some fiscal responsibility, anything we do, in my opinion, is going to be short term— short term, a Band-Aid, to take care of us until the next crisis. There will be another one.

Senator Hecht.

Senator HECHT. Thank you, Mr. Chairman. I apologize for being late. My wife and I got in late last night from Nevada. Thankfully, our luggage got in this morning.

I'm sorry I did not hear the Secretary, but your words were better than any words I could say and I commend you for them and I'll give you back my time since I did not hear the Secretary speak.

The CHAIRMAN. Senator Hawkins.

Senator HAWKINS. Mr. Sprinkel, I'd like to go back to what Senator Garn said. Do you think the United States has done well in the last 3 years by cutting interest rates in half, and dropping inflation almost down to zero? Can you tell me another country that's done that?

Mr. SPRINKEL. I think we've made enormous progress, but have we solved all the problems that existed? The answer is clearly no.

Senator HAWKINS. I must note at this point that taxpayers do not understand the reasons why the discipline that Senator Garn is seeking is not forthcoming in elected bodies. They are especially confused when our own Government votes to make it easier for these governments to borrow more of their money.

The CHAIRMAN. I would be very happy for 20 percent of that perfection.

Senator HAWKINS. I do not know how I can explain all this to the taxpayers other than by saying the borrowers are in charge of the

bankers when it comes to the IMF. This control extends to the treatment of IMF gold. I see no reason for there to be any resistance on revaluating IMF gold at today's prices. It is worth $46 billion but is carried on IMF books at $4 billion.We really do have an asset there that we're not using.

Mr. SPRINKEL. I agree that it's a very important asset and that's why I would like to keep it so that under normal circumstances to strengthen our claims on the IMF—we have the largest claims, $9.4 billion at the present time—it's very comforting to know that they have 103 million ounces of gold which will be more than enough to meet the claims on the institution. Therefore, I and many other government representatives around the world will be very reluctant to see all of that gold sold.

LIQUIDITY IN THE IMF

Senator HAWKINS. Is liquidity in the IMF a desirable goal?

Mr. SPRINKEL. Is liquidity in the IMF desirable? It depends on what you mean by that, but it's certainly highly desirable that the IMF have sufficient resources to perform the critical role that they have been performing, and liquidity measured that way is rapidly being depleted, that is, they are overcommitted on borrowed resources and have a very limited amount of owned resources. So if you mean by liquidity that, yes, it's highly desirable that they have the ability to follow through on discipline policies to encourage those countries to move out of high or accelerating inflation back to stability.

They have a good record on that and if there is sufficient seed money available, we certainly do not want to see the IMF become the major intermediary. We think it should be through the private sector. But the private sector does not have the ability to encourage the adjustment that is the discipline that the IMF has. So this is why we must support those efforts, at the same time try to help the countries that are in difficulty by getting our own economy moving, by making sure that we don't prevent the ability to import their goods into the developed world. Also, over time, to try to work down the tariff barriers and other inhibiting factors preventing trade between not only the developed world but also between the developed and the developing world.

So I think it's critical for the solution of these problems that there be adequate liquidity in the IMF and at the moment it's slipping rapidly.

Senator HAWKINS. Are you going to come back next year with a request for another quota increase?

Mr. SPRINKEL. I certainly don't intend to, and it would be inconceivable that that will happen. We have worked toward limiting access, toward encouraging conditionality, toward recognizing there is not enough money in the world to just easily solve all those problems. There must be action on the part of the borrowing countries and I certainly do not expect it to be depleted in 1 year. Now I hope it will last for 5. That's the initial plan, but we can't be certain. Maybe it will last longer. If in fact we're successful in getting adjustment out there and we move toward, as I said, the ideal world that we talked about for a few moments, there's no need for

the IMF in that sort of a world. We're not there and I can't predict whether we'll ever get there.

Senator HAWKINS. If you come back, would you give us some kind of assurance that you're going to recommend an affirmative action plan of some type that would work better than rescheduling?

Mr. SPRINKEL. Well, there is some rescheduling going on. I don't want to be misunderstood, especially by Senator Mattingly. We do have the Paris Club operation—and we participate in that operation—where government credits are typically rescheduled, especially when there is proper discipline imposed by the countries involved. We have had rescheduling in relation to an IMF program, especially where it's mostly private credit, and there will be additional ones.

The only point I would make is that the rescheduling should occur within the context of the discipline program. That's the important thing. That is, if we just make it easy for them, they might not—probably would not—adjust. So we're trying to work with both the debtors and the creditors to resolve this very important issue and one of the tools available is rescheduling from time to time.

Senator HAWKINS. You talked about open markets in your statement and also in several answers to the questions. Can you tell me what country has open markets?

Mr. SPRINKEL. No one has perfectly open markets, including the United States. We're probably the closest to perfection and we're far from there. But most people yearn to have freer trade. I mean, consumers, economists, most government officials. There has been a movement toward less free trading during this recent period of recession and that's understandable. I understand why producers and workers feel threatened by production abroad, but the mere fact that it's understandable doesn't mean that that's desirable economic policy.

LIMIT TREND TOWARD PROTECTIONISM

President Reagan has tried very hard to eliminate or at least limit the amount of protection and we are trying to reverse it as he indicated in his Saturday speech on radio, and other heads of states feel the same way. We can speak of statements coming out of Williamsburg as if it's just words. Yes, it's just words, but it's words by the seven chief executives of the seven largest nations in the world, plus the EC, and they said that they all believe it was important to stop the trend toward protectionism and to begin a reversal, and I think that's an important statement. It's up to us to do it. It's up to Congress. It's up to the administration working with the Congress. But at least they provided the leadership and direction.

President Reagan plans to move in that direction so that we can raise the standard of living, so that we can keep cost of production down, so we can have lower prices to our consumer. So I do think it's very important that we move in that direction and you can't move in that direction probably when you have a contracting world, when world trade is declining. We're now under an economic expansion, not only here but abroad, so that markets will be ex-

panding, not contracting, and in that environment we hope that that change can occur.

Senator HAWKINS. You spoke of productivity and talked about us. Do you say that we should teach the world how to increase their productivity?

Mr. SPRINKEL. Well, Senator Garn put his finger on one of the big problems for improving productivity in the United States. That is, the existence of very large deficits. Those deficits are going to be absorbing at present levels a significant portion of the private savings being generated. You can't use them twice. You can only use them once. If you use them to finance a large deficit, then there are not large flows of savings into the capital formation and most of the economic research that I know anything about argues that the most important factor in improving productivity is larger, higher capital formation. We did cut taxes designed to encourage savings and that will help some, but we also need to exercise restraint on government spending, again as the heads of states stated in Williamsburg last week. Their emphasis was on restraining government spending, and the reason it's important to do that, to reduce the deficit, is so we can have more private capital formation, so we can have improvements in productivity. And why do we want improvements in productivity? So we can raise our standard of living and share it with more citizens.

So I think it is important and it is related to the statement that Senator Garn made concerning our difficulty in disciplining government spending and keeping deficits under control.

Senator HAWKINS. I dare say that labor unions have had as much influence on that particular question as the Government. My time has expired.

The CHAIRMAN. Senator Mattingly.

Senator MATTINGLY. Thank you, Mr. Chairman.

Getting back to your comments about Williamsburg, trade and protectionism. Of this money that will go into the IMF, we'll be assured that it's not going to come back in the form of a subsidy, another country subsidizing their exports?

Mr. SPRINKEL. What we can be assured of, Senator Mattingly, is that the IMF inevitably works toward reducing subsidies, although frequently it is not possible to eliminate them because typically when a program is imposed a country has a large deficit, not only internally but externally.

Senator MATTINGLY. Has Brazil reduced their subsidies?

Mr. SPRINKEL. There has been some reduction, yes.

Senator MATTINGLY. None have impacted my State so far.

Mr. SPRINKEL. Well, that I'm not certain of, but, of course, the fact that they're out of compliance does mean that they're going to have to move to reduce some of those subsidies further.

Senator MATTINGLY. Is there any way to keep IMF funds from being used for any subsidies, because there are export subsidies?

Mr. SPRINKEL. Well, there are export subsidies. The question is, Does the IMF push them in a direction away from subsidy? And the answer is yes. But they do not go from the existing level to zero quickly for the simple reason that the country usually has a large deficit in its balance of trade.

Senator MATTINGLY. Do you think the policy of import less and export more is conducive to not utilizing the subsidy?

Mr. SPRINKEL. In the very short run it isn't, but in the slightly longer run it is. That's exactly the conflict I was pointing out. If you insisted you eliminate all subsidies in the very short run it would cause some short-run difficulties on the balance of trade which is already in difficulty.

Senator MATTINGLY. Now I'll also correct you on the Williamsburg meeting, or whatever you want to refer to it, about everybody saying they're going to stop subsidizing. They didn't say when. Sir Roy Denman has already made the comment that their subsidies are nonnegotiable. That's on the record. So they're no further along then they were when they left the GATT conference last November with respect to subsidies.

Mr. SPRINKEL. There was an agreement to work toward a new GATT that was reached by the heads of states in Williamsburg and that's further along than we have been in the whole export credit war in the last GATT meeting. So a little bit of progress, but not enough.

Senator MATTINGLY. Getting back to Senator Garn's comment about productivity, which is great and all that and we all want to be more productive, but the subsidies are really counterproductive. Productivity by utilization subsidies is really not productivity.

Mr. SPRINKEL. No, sir. I agree with that.

Senator MATTINGLY. It's strictly false.

You've done the study about the gold and saying what the price of gold would drop to in case you sold it.

Mr. SPRINKEL. That's a guess, that's all it is.

Senator MATTINGLY. You didn't do a study then to find out how long the money would go.

Mr. SPRINKEL. That's right.

Senator MATTINGLY. In other words, the $30 billion that would end up going to the IMF, Senator Hawkins asked you about, you said would last through next year and the plan was for it to last 5 years. Really, how long do you expect it to last?

Mr. SPRINKEL. Well, it depends on a lot of factors that I can't predict. It depends on whether or not we keep very strict control on access to IMF resources. It depends on how slow those countries that are in difficulty—how slow they are in adjusting.

Senator MATTINGLY. What's the best guess?

Mr. SPRINKEL. It depends on how quickly they adjust. My guess is 5 years, but I can't be certain of that.

Senator MATTINGLY. Do you think it will last 5 years?

Mr. SPRINKEL. Well, if the adjustments occur as we hope they will, it will last that long. If they don't, then it won't.

IMPACT OF NOT FUNDING THE IMF

Senator MATTINGLY. I'd like to come back to what Senator Garn said because I think he's probably right when he said if he had his druthers he'd probably rather not even have to fund the IMF. So maybe it's better not to fund the IMF and then force the changes that must happen in those countries. It probably would be a little bit more expeditious than what we're doing here because I think if

you just take a case example—and I don't want to keep bringing up Brazil, but you gave money to Brazil and they still haven't complied. Would we have been further along by not giving them money and forcing things to happen and then if things did happen then restructure and reschedule their IMF loan?

Mr. SPRINKEL. Well, that's a good question and I can tell you how I come down. The countries had to adjust in any event. The reason was, in most cases, they were, No. 1, out of reserves; and, No. 2, the markets were closed. That is, potential lenders had no confidence and therefore there's no alternative to adjusting. Now adjusting means several things. It means forcing a contraction in their economy to get their imports down, to get their exports up. So it's not a question of IMF causing adjustment or no adjustment. They had to adjust.

What we have attempted to do is to work with them in a way that the cost would be minimized and the benefits would come along soon without adverse effects on our own economy. Sure, we could have said there's no money available; you've got to adjust. What effect would that have on us? We think it would have a very adverse effect on our employment, on our recovery, and not only on ours but the rest of the world, but especially ours, and it's certainly self-interest from that point of view to argue that it's important that we make it possible for that adjustment to occur in a way a little less costly for the adjusting nation and to the largest creditor in the line.

So it's for those reasons that we have argued that let's go the direction of the internationally agreed upon strategy. Other nations are providing their fair share. I hope we'll provide ours. And the adjustments will occur without causing a contraction in total credit and hence adverse effect on our citizens, on jobs, on borrowing. I just don't want to be a part of a strategy that forces massive further reduction in jobs in the United States. We have too many jobless now. The emphasis should be on increasing the number of jobs.

Senator MATTINGLY. Well, of course, nobody is trying to throw anybody out of work. Just because we're asking you about the question of policies that are used doesn't mean there are not other policies that might be more beneficial. Just because you've got a view or the administration has one view of what people do about funding the IMF—I agree that the IMF is probably the agency—I mean, the United States can't go dictating to other countries what economic policies to institute in order to get the inflation down and productivity up and all of that, and probably IMF is a vehicle to use out there, probably one of the last since the GATT sort of fell on its can last year. And it may work. But I'm just saying to them, requesting policies to be used, they don't necessarily have to use this money to institute those policies. That's what I'm trying to get at.

You know that the idea of rushing in with the money is not necessarily going to—and beating the issue to death with money is not going to solve it. We tried that in this country for years and it's worked so well. That's the reason why we've got so many entitlement programs. Now you could go out there and do that with these countries without even attempting—all we're doing now is institute and continue to keep the same policy. That's what bothers me. I

know you're shaking your head no, but I don't see anything being very cautious about what we're doing. I guess that's the position I'm taking.

Mr. SPRINKEL. I agree with that.

Senator MATTINGLY. To go in there with $30 billion more and nobody even knows—down at the IMF they don't even know how long it's going to last. I think questions need to be asked and I'm going to finish asking the questions along that line that maybe some countries that we are going to help through the IMF, maybe we can help them through a different type of policy rather than giving them money, even asking them to go ahead and institute policies first and then maybe coming forth with the money later, maybe putting the cart before the horse.

That's all the questions I have, Mr. Chairman.

The CHAIRMAN. Senator Hawkins.

Senator HAWKINS. Pursuing Senator Mattingly's line of questioning, are there any countries that you feel, without naming them—or if you want to name them I don't care—that you feel this approach could be used? You don't need to use the same approach in every country. Some are in better shape than others.

Mr. SPRINKEL. Well, I have great sympathy for Senator Mattingly's basic view on this issue, that is, why do we have to have this bait money from the IMF, why can't we get them to adjust without having to put up publicly appropriated funds? And the only thing I can say is that even with the IMF program we have frequently been unable to get governments to move in that direction and to start adjustment before they run out of reserves and before the financial markets closed up. We tried that, but there are always political reasons or something else why it shouldn't be done.

Now you'd like to be able to sell the integrity of the IMF—you know, put the Good Housekeeping seal of approval on a particular country because they're doing it on their own, not because the IMF is working with them to do it and they then could keep access to the markets, and there are nations around the world, a few, that aren't in IMF programs that are running their affairs, but many of them are in some form of difficulty. So until we get greater convergence of economic policies among not only the developed nations but among the developing ones, I'm not sure that that approach would be fruitful. It does take some money from the IMF. Otherwise, they can't work out the discipline with participating nations. Now maybe eventually we can move to the state that you suggest and I certainly would not be against the idea in general.

Senator HAWKINS. In your statement you said you would be for that when an emergency situation arose and we discussed what your views of an emergency are today. Were you in sympathy with the revaluation and the return of the gold to the countries when they did it in 1976?

Mr. SPRINKEL. It's a long time ago.

Senator HAWKINS. It's a twinkling of an eye.

Mr. SPRINKEL. I don't remember what position I had on the return of gold to other members.

Senator HAWKINS. Could you tell me what your position would be in 1986?

Mr. SPRINKEL. At present, I would not be in favor of that because it would be returned to them at whatever it is, $35 SDR an ounce I believe—I've forgotten the exact number——

Senator HAWKINS. You say you're for holding this in the future. You're not against the idea, right? We've established that in this hearing, that you're not totally opposed to the idea of revaluating the gold. You say that in your statement that this could be used in the future when an emergency situation arose.

Mr. SPRINKEL. That's correct.

Senator HAWKINS. And you also say that you don't know if you'll be back next year or not, but if you are back in the next year or two that you may have another plan for us other than the jawboning that you do now with the countries. Did you not say that?

Mr. SPRINKEL. I don't remember saying I would have another plan.

Senator HAWKINS. I asked if you could assure us that we would have some type of an affirmative action other than rescheduling in the future if you were to come back for more money.

Mr. SPRINKEL. I think the solution is adjustment; that is, conditional programs where the IMF provides money only when they perform. And if that doesn't work, I don't have an alternative other than each nation should do it on their own, but I can't make that happen.

Senator HAWKINS. Well, then, I'm confused. You're for using the gold in the future in an emergency.

Mr. SPRINKEL. Yes, ma'am.

Senator HAWKINS. But if you come back for more money a year or two from now, you're not for using the gold?

Mr. SPRINKEL. I might, if 2 years from now we run out of resources—this is what you're talking about since it takes about 2 to negotiate quotas and we have not started renegotiation on a new quota as of today and we don't plan to start—that we might be in favor of some sale of the gold.

Senator HAWKINS. I have no further questions, Mr. Chairman.

The CHAIRMAN. Senator Mattingly.

IMF SURVEILLANCE PROCESS OF FOREIGN GOVERNMENTS

Senator MATTINGLY. Just quickly, can the IMF analyze countries now? We ought to have some sort of figures on what the inflation rates are or the interest rates are in these countries and the ones that have not requested money from the IMF and maybe have the IMF recommend changes that they begin to make in those countries? Do we do that?

Mr. SPRINKEL. Well, the IMF does have good data on each country and much of the source comes from a practice established some years back where typically once a year the IMF goes through a surveillance process with each government reviewing all aspects of its economic policy.

Senator MATTINGLY. OK. Now the question is, do they make any recommendations when they see a bad economic policy out there in those countries? Do they tell them to change or do they have to wait until they request the money?

Mr. SPRINKEL. They make recommendations but these governments are independent governments.

Senator MATTINGLY. Well, they're independent——

Mr. SPRINKEL. And you only have some leverage on them——

Senator MATTINGLY. When they ask for money, right?

Mr. SPRINKEL. Yes, sir.

Senator MATTINGLY. OK. Now, if you know some more countries are going to ask for money, which we do, right?

Mr. SPRINKEL. It's very probable.

Senator MATTINGLY. It's the reason why you're here because we're going to need some more money to fund them. We know that Spain in the near future is going to ask for money. Why doesn't somebody go there in the IMF and recommend they institute some changes?

Mr. SPRINKEL. I suspect they have. I know that on occasion we made recommendations to some governments that were in difficulty that they change long before they did. You can make recommendations, but they're independent, sovereign governments. That's difficult.

Senator MATTINGLY. And the only time you've got any "hammer" is when they come to ask for the money?

Mr. SPRINKEL. Unfortunately, that's true, partly——

Senator MATTINGLY. Or when there happens to be an emergency that comes up where we need to fund the IMF, right?

Mr. SPRINKEL. Yes, sir.

Senator MATTINGLY. Wouldn't that be an appropriate time to try to institute some change in policy in the IMF then?

Mr. SPRINKEL. Well, it isn't IMF. It's the independent, sovereign nations that may or may not go along with proposals by the IMF.

Senator MATTINGLY. When would you consider—I'm sure Senator Hawkins asked this question and I just forgot the answer you gave. What time this year will the emergency come up if you don't fund the IMF by the end of June or July?

Mr. SPRINKEL. I'm not certain. I know that they're already overcommitted. If we can get the final approval of 85 percent of all the governments by the latter part of this year, I think we'll make it. And we have checked carefully on how it's coming out of other governments. Most of them do not have the involved process that we have in the United States and we are sure that at least among the majors that I've talked with that it's coming and by the latter part of the year funds will be forthcoming and available. So I hope that we can stick on that schedule.

Senator MATTINGLY. Has any conversation about putting conditionality on the IMF loans for exports or trade had any impact in any of these countries? Have you heard anything back that any of them——

Mr. SPRINKEL. Well, I heard some argument that the mere fact that the borrowing country must adjust means in the short run they may import less from the United States and hence would adversely affect trade between our country and hence our jobs. We have looked at a large number of the more recent programs, and so far we can report that something on the order of 80 or 85 percent of the program provide for more imports in the first year of the program than they did in the year preceding the program. I hope

it's going to happen in Mexico. Mexico had a very sharp contraction in imports from the United States last year because they had no alternative. They were out of reserves and they couldn't borrow and the contraction was enormous. We're hopeful that as they make adjustment and as some resources—not as many additional ones, but some—from the IMF and from the commercial banking develops, that their imports will cease going down and actually go up.

So, yes, the adjustment inevitably affects trade with the United States, but we believe that with the program that the IMF imposes that it will be the least costly way of doing it. It's not costless.

Senator MATTINGLY. I agree with that part of it except when you get into the problem of the subsidies which create unfair trade that is a great concern of a lot of people in the United States and the Congress. What concerns me is our inability to have any impact upon those decisions. Even if we dump $8.4 billion into the IMF, we have no assurance at all the countries will ease using export subsidies. We talk about the policy of importing less and exporting more for the countries, which is great, but we never get to the real problem of how to stop the subsidy and nobody has been able to say how we stop it or is willing, as far as I know—it hasn't even been brought up in any conversations other than myself with the head of the IMF that these loans are being made to these countries. I don't think it's really been brought up within the subject of the Caribbean Basin. So there is consternation over funding and spending the money. I know when we talk about a $800 billion budget that $8 billion is infinitesimal from the standpoint of some people and it's off-budget and doesn't count and all that, but I just think that what we're getting ready to do here—well, I don't want to do anything that's going to cause economic problems. We've got enough economic problems all over the world, but I have great problems with our funding this now. The more I hear and the more that is played back in these hearings, it appears more and more that it's not a worthwhile project, because I don't think we've got our act together in this country with reference to the IMF.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hawkins, do you have any additional questions?

Senator HAWKINS. No.

The CHAIRMAN. Thank you, Mr. Secretary. Again, I would just say that I agree with a great deal of what has been said by my colleagues today. I see no other alternative at this point. It's distasteful to me to have to support the increase. I find no other viable alternative at this particular time.

Also, I'm aware that during the negotiations with the requirements of such a high percentage vote for agreement, that I do believe that our Government had a difficult time keeping the requested increase down to $8.4 billion. The other nations were requesting a great deal larger increase. So I know the administration did not enjoy going this route and certainly fought against a much larger increase that was requested by other nations.

Thank you very much for your willingness to be here this morning.

The committee is adjourned.

[Whereupon, at 11: a.m., the hearing was adjourned.]

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